



JOHN NAIMO  
AUDITOR-CONTROLLER

## COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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March 28, 2016

TO: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: John Naimo  
Auditor-Controller

A handwritten signature in blue ink that reads "John Naimo".

SUBJECT: **HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES – A  
DEPARTMENT OF CHILDREN AND FAMILY SERVICES  
RESIDENTIALLY BASED SERVICES PROGRAM PROVIDER – FISCAL  
COMPLIANCE REVIEW**

We completed a fiscal compliance review of Hathaway-Sycamores Child and Family Services (Hathaway-Sycamores or Agency), which included a sample of transactions from Program Year (PY) 2013-14. The Department of Children and Family Services (DCFS) contracts with Hathaway-Sycamores to provide the Residentially Based Services (RBS) Program to children placed in Rate Classification Level 12 or 14 Group Homes and their families. The RBS Program provides intensive mental health treatments, family reunification, and other supportive services to shorten their stay in Group Homes and obtain permanency.

The purpose of our review was to determine whether Hathaway-Sycamores appropriately accounted for and spent RBS Program funds to provide the services outlined in their County contract. We also evaluated the Agency's financial records, internal controls, and compliance with their County contract and other applicable guidelines.

DCFS paid Hathaway-Sycamores approximately \$2.1 million on a fee-for-service basis for PY 2013-14. Hathaway-Sycamores provides services to residents of the Fifth Supervisorial District.

### **Results of Review**

Hathaway-Sycamores maintained adequate controls over their cash and fixed assets, and maintained documentation to support their payroll expenditures. However, the Agency charged \$23,891 in questioned costs to the RBS Program and did not always comply with their County contract requirements. Specifically, Hathaway-Sycamores:

- Charged \$2,780 in PY 2013-14 to the RBS Program for unallowable expenditures, including investment fees and expenditures related to another program.

*Hathaway-Sycamores' attached response indicates that they will repay DCFS \$2,780.*

- Charged \$21,111 in PY 2013-14 to the RBS Program for inadequately supported expenditures.

*Hathaway-Sycamores' attached response indicates that they will repay DCFS \$21,111.*

- Did not always complete their time studies in accordance with their County contract requirements. Specifically, eight (20%) of the 40 time studies reviewed were not signed by employees or supervisors as required by the RBS Program contract.

*Hathaway-Sycamores' attached response indicates that they submitted time studies with missing signatures to the State and will ensure the time studies are signed by both employees and supervisors.*

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

### **Review of Report**

We discussed our report with Hathaway-Sycamores and DCFS. Hathaway-Sycamores' attached response (Attachment II) indicates agreement with our findings and recommendations. DCFS will work with Hathaway-Sycamores to ensure that our recommendations are implemented.

We thank Hathaway-Sycamores management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:PH:DC:EB:sk

Attachments

c: Sachi A. Hamai, Chief Executive Officer  
Philip L. Browning, Director, Department of Children and Family Services  
Michael R. Galper, Board Chair, Hathaway-Sycamores  
Debra K. Manners, Chief Executive Officer, Hathaway-Sycamores  
Public Information Office  
Audit Committee

**HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES  
RESIDENTIALLY BASED SERVICES PROGRAM  
FISCAL COMPLIANCE REVIEW  
PROGRAM YEAR 2013-14**

**CASH/REVENUE**

**Objective**

Determine whether Hathaway-Sycamores Child and Family Services (Hathaway-Sycamores or Agency) properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank account reconciliations were prepared, and reviewed and approved by Agency management in a timely manner.

**Verification**

We interviewed Hathaway-Sycamores' personnel, and reviewed their financial records and November 2014 bank account reconciliations for two bank accounts.

**Results**

Hathaway-Sycamores properly recorded revenue in their financial records, and deposited their Department of Children and Family Services (DCFS) cash receipts into their bank accounts timely. In addition, bank reconciliations were prepared, and reviewed and approved by Agency management in a timely manner. However, Hathaway-Sycamores did not always have two signatures on checks greater than \$15,000 in accordance with their accounting policies and procedures manual. Specifically, four checks over \$15,000 reviewed did not contain two signatures as required.

**Recommendation**

1. **Hathaway-Sycamores Child and Family Services management require two signatures for checks greater than \$15,000 in accordance with their accounting policies and procedures manual.**

**COST ALLOCATION PLAN/EXPENDITURES**

**Objective**

Determine whether Hathaway-Sycamores developed their Cost Allocation Plan (Plan) using an appropriate cost allocation methodology, and if expenditures charged to the Residentially Based Services (RBS) Program were allowable, properly documented, and appropriately allocated.

**Verification**

We interviewed Agency personnel, and reviewed their Plan and financial records for 62 non-payroll expenditures, totaling \$53,974, that the Agency charged to the RBS Program from December 2013 through December 2014.

**Results**

Hathaway-Sycamores developed their Plan using an appropriate cost allocation methodology. However, Hathaway-Sycamores inappropriately charged unallowable and inadequately supported expenditures to the RBS Program totaling \$23,891. Specifically, Hathaway-Sycamores charged:

- \$2,780 in Program Year (PY) 2013-14 to the RBS Program for unallowable expenditures, including investment fees and expenditures related to another program. The Office of Management and Budget Circular A-122 Attachment B, Section 23 states that investment expenses are unallowable, and the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Section A.1.5 states that only those expenditures that are necessary, proper, and reasonable to carry out the purposes and activities of the Program are allowable.
- \$5,599 in PY 2013-14 to the RBS Program for gift cards purchased for their employees without documentation to support how it benefited the RBS Program as required by the A-C Handbook Section A.3.2. In addition, Hathaway did not maintain adequate control over their gift cards. Specifically, their gift card disbursement log did not support that the gift cards were purchased and distributed for allowable and necessary RBS Program expenditures.
- \$15,512 to the RBS Program for inadequately supported Program expenditures, including lawyer fees, conference, computer, and information technology support fees. Specifically, the Agency did not provide invoices or adequate documentation to support how the expenditures benefited the RBS Program as required by the A-C Handbook Section A.3.2. In addition, the Agency did not provide supporting documentation for the allocation methodology used for training and education expenditures.

**Recommendations****Hathaway-Sycamores Child and Family Services management:**

2. **Repay the Department of Children and Family Services \$23,891 (\$2,780 in unallowable + \$21,111 in inadequately supported) charged to the Residentially Based Services Program, or provide documentation to support the unsupported items.**
3. **Ensure that the Residentially Based Services Program expenditures are supported with adequate documentation.**

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether Hathaway-Sycamores fixed assets and equipment purchased with RBS Program funds were used for the appropriate Program and adequately safeguarded.

**Verification**

We interviewed Hathaway-Sycamores personnel, and reviewed their fixed assets and equipment inventory list. We also performed a physical inventory of seven items purchased with RBS Program funds to verify the items exist and were being used for the Program.

**Results**

Hathaway-Sycamores adequately safeguarded and used the items we reviewed for the RBS Program.

**Recommendation**

None.

**PAYROLL AND PERSONNEL****Objective**

Determine whether Hathaway-Sycamores maintained time studies and personnel files as required and charged payroll expenditures to the RBS Program that were allowable, properly documented, and appropriately allocated.

**Verification**

We compared the payroll expenditures for 16 employees, totaling \$11,042 for November 2014, to the Agency's payroll records and time reports. We also interviewed employees, and reviewed 40 time studies and personnel files for the 16 employees.

**Results**

Hathaway-Sycamores appropriately charged payroll expenditures to the RBS Program, and maintained time studies and personnel files as required. However, Hathaway-Sycamores did not always complete their time studies in accordance with their County contract requirements. Specifically, eight (20%) of the 40 time studies reviewed were not signed by employees or supervisors as required by the RBS Program contract Part I, Section 5.6.2.

**Recommendation**

4. Hathaway-Sycamores Child and Family Services management ensure time studies are signed by employees and supervisors.

**ENCRYPTION CONTROLS****Objective**

Determine whether Hathaway-Sycamores maintained encryption software to protect confidential and Personally Identifiable Information (PII).

**Verification**

We interviewed Agency personnel and reviewed their policies and procedures.

**Results**

Hathaway-Sycamores maintained encryption software to protect PII.

**Recommendation**

None.

**SEMI-ANNUAL EXPENDITURE REPORT****Objective**

Determine whether Hathaway-Sycamores' PY 2013-14 RBS Semi-Annual Expenditure Reports reconciled to their financial records.

**Verification**

We compared the Agency's PY 2013-14 RBS Semi-Annual Expenditure Reports to their financial records.

**Results**

Hathaway-Sycamores' PY 2013-14 RBS Semi-Annual Expenditure Reports reconciled to their financial records.

**Recommendation**

None.



February 26, 2016

John Naimo  
Los Angeles County Auditor-Controller  
500 West Temple Street, Room 525  
Kenneth Hahn Hall of Administration  
Los Angeles, California 90012

RE: Response to- HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES – A RESIDENTIALLY BASED SERVICES PROGRAM PROVIDER – FISCAL COMPLIANCE REVIEW

Dear Mr. Naimo,

I am writing in response to the DEPARTMENT OF CHILDREN AND FAMILY SERVICES RESIDENTIALLY BASED SERVICES PROGRAM PROVIDER – FISCAL COMPLIANCE REVIEW – PROGRAM YEAR 2013-14.

We thank you and your staff for the feedback we received during the auditing process.

Attached please find our response to the recommendations provided by the County.

If you have any questions or need additional information, please feel free to contact me at (626) 395-7100 extension 2501.

Sincerely,



Jim Huser  
Chief Financial Officer



**HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES  
RESIDENTIALLY BASED SERVICES PROGRAM  
FISCAL COMPLIANCE REVIEW  
PROGRAM YEAR 2013-14**

**CASH/REVENUE**

**Recommendation**

- 1. Hathaway-Sycamores Child and Family Services management comply with dual check signature requirement in accordance with their accounting policies and procedures manual.**

Hathaway-Sycamores will comply with the dual check signature requirement with all future checks.

**COST ALLOCATION PLAN/EXPENDITURES**

**Recommendations**

**Hathaway-Sycamores Child and Family Services management:**

- 2. Repay the Department of Children and Family Services \$23,891 (\$2,780 in unallowable + \$21,111 in inadequately supported) charged to the Residentially Based Services Program in Program.**

Hathaway-Sycamores will repay \$2,780 and \$21,111 in unallowable and inadequately supported expenses.

- 3. Ensure that the Residentially Based Services Program expenditures are supported with adequate documentation.**

Hathaway-Sycamores will ensure that RBS program expenditures are supported with adequate documentation.

**FIXED ASSETS AND EQUIPMENT**

**Recommendation**

**None.**

**PAYROLL AND PERSONNEL**

**Recommendation**

- 4. Hathaway-Sycamores Child and Family Services management ensure time studies are signed by employees and supervisors.**

Hathaway-Sycamores submitted time studies with missing signatures to the state and will ensure that future time studies are signed by both employees and supervisors.

**ENCRYPTION CONTROLS**

**Recommendation**

**None.**

**SEMI-ANNUAL EXPENDITURE REPORT**

**Recommendation**

**None.**